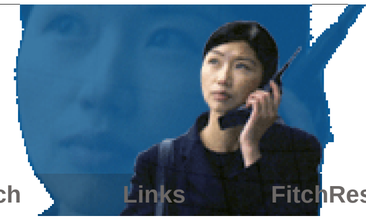

Fitch Rts CA $86.2MM GOs 'AA'; GO & Lease Bds On Rtg Watch Neg

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Fitch-NY-April 18, 2001: Fitch rates the state of California's $86,225,000 veterans general obligation bonds, including $29,725,000 series BV (non-AMT) and $56,500,000 series BW (AMT) 'AA'. Fitch is also placing California's general obligation bonds and lease obligations of the state on Rating Watch Negative. The action is prompted by the uncertainty created by the filing of an appeal by Pacific Gas and Electric Company (PG &E), which has filed for bankruptcy under Chapter 11, of the California Public Utilities Commission (PUC)'s interim order that has set the method for calculating the California Procurement Adjustment (CPA). The CPA determines the amount of power revenue bonds that may be issued by the California Department of Water Resources (DWR) pursuant to the state's power purchase program. The power revenue bonds, when issued, are an integral part of that program; they will reimburse the state general fund for amounts advanced for power purchases as well as finance future purchases. Until the results of the appeal are known or other corrective action is taken, the calculation of the bond authorization is in doubt. The filing of the appeal and, potentially, of other appeals including the PUC's proposed rate increases, will likely cause delays in the financing process. Separately, tax collections in February and March, particularly the personal income tax, have been disappointing and unless they reflect timing issues only, continuation of the trend could reduce projected general fund surplus.

DWR has been purchasing power since January, using the state's general fund and through April 2, a total of $3.9 billion had been expended. Power purchases have been around $50 million a day. The state closed fiscal 2000 with a general fund balance of over $9 billion. Operations in 2000-01 are expected to use some $3 billion of the surplus, leaving $6.6 billion at June 30, 2001 and the recommended budget for 2001-02 would further reduce the balance to $3.1 billion at year-end. All of these balances assume reimbursement to the general fund from DWR bonds secured by a portion of customer tariffs. At Feb. 28, the general fund had $6.1 billion in cash and $10.1 billion was held in borrowable resources. The general fund will continue to have a financial risk from the amounts it is advancing until repayment takes place.

While the economy appears to remain strong, with employment gains still around 3%, tax collections in both February and March were below forecast, with the personal income tax short by $455 million or 14%. The question of timing versus a lower level of collections will be clearer when April and May collections are available.

The new bonds are expected April 19 through negotiation with a syndicate led by Merrill Lynch & Co. They will be due December 1, both series serially in 2005-13; series BV will have term bonds due in 2013, 2020, 2015 and 2032 and series BW, terms in 2018, 2020, 2025 and 2029. Bonds will be subject to special redemption from excess revenues, mandatory redemption for term bonds and there will be optional calls. Veterans bonds are serviced from program revenues although they are general obligations. Net tax-supported debt, which excludes veterans bonds, remains moderate at $26.7 billion, or $787 per capita and 2.7% of personal income.

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Contact: Claire G. Cohen 1-212-908-0552 or Richard J. Raphael 1-212-908-0506, New York.